

TESTIMONY OF
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SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES
ON
H.R. 1327, THE IRAN SANCTIONS ENABLING ACT OF 2009
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Mr. Chairman, members of the Committee, I am honored to testify on behalf of the American Jewish Committee in support of the Iran Sanctions Enabling Act. AJC is grateful to Chairman Frank and to you, Chairman Meeks, and to the other sponsors of this important legislation for developing early in the new Congress this well-crafted tool to address the grave threats posed by Iran's regime.

My testimony will highlight two key points:

First, stopping Iran's nuclear program is a matter of the greatest urgency – because Iran is so close to achieving nuclear capability, and because a nuclear Iran would alter the world as we know it in terrible ways.

Second, this legislation – clarifying the authority of state and local governments, and investment companies, to divest from entities that invest heavily in Iran's energy sector – can significantly assist the overall effort to halt Iran's nuclear program.

Iran is perilously close to nuclear arms capability. It has already crossed a significant threshold – amassing enough enriched uranium to make, with further enrichment, its first nuclear bomb. Admiral Mullen, the Chairman of the Joint Chiefs of Staff, discussed this conclusion last week, and the International Atomic Energy Agency documented it in its February 19 report.

Iran's installation of thousands of next generation centrifuges increases its ability rapidly to enrich to bomb grade – and thus “break out” of its Non-Proliferation Treaty constraints. Iran could probably conceal its breakout even if IAEA inspectors remain in the country, because Iran routinely refuses to provide critical information and access to inspectors. Once Iran decides to break out, it may be too late for the international community to stop it from producing a bomb. That gives us breathtakingly little time to act. And Iran could marry a nuclear warhead with advanced missiles it already possesses that could strike the Middle East and beyond, including much of Europe.

President Obama and Congress recognize America's strong interest in preventing Iran from obtaining a nuclear weapon. Some observers may see a nuclear Iran primarily as an existential threat to Israel, a country it has repeatedly threatened and has used proxy forces to attack. I do not want to minimize that very real danger – nor the need for bold international action to prevent it. But I want to highlight that a nuclear Iran would pose an even broader threat – throughout the Arab Gulf, to the entire region and, indeed, to global peace and security.

Already, Iran projects its power throughout the Middle East. Nuclear arms would embolden Tehran to pursue its expansionist agenda even more aggressively. And the international community's options for vigorous response would be constrained, for fear of provoking nuclear retaliation. I will give you a few examples:

A nuclear Iran could dominate the world's most abundant sources of energy – the Gulf and the Caspian Basin. Iran could attempt to close the Strait of Hormuz – through which roughly 20 percent of the world's oil production passes. Or it might seek to realize its expansionist vision by taking territory from one or more of the smaller Gulf States.

Later today, I will be leaving to join several AJC colleagues in a round of consultations in the Gulf, visiting countries allied with the United States in the struggle against terrorism and extremism, and supportive of efforts to advance regional peace. In our previous meetings in the region, Gulf leaders have repeatedly expressed their concern about Iran's quest to assert its regional power, and its attempts to radicalize their societies. It isn't only Israel that perceives the perils of a nuclear Iran. From North Africa to the Levant to the Gulf, pragmatic Arab governments and civil society leaders recognize the danger of a further empowered Iran; many look to the United States for assurance that this nightmare can be averted, and that America will safeguard their security. Unless the United States and other powers act boldly and promptly, these governments may feel compelled to accommodate Iran, procure their own nuclear weapons, or both. These developments would assuredly destabilize the region, challenge U.S. power, and imperil the Nuclear Non-Proliferation Regime.

Iran already has a potent presence in the Palestinian territories and Lebanon – through its active support of Hezbollah and Hamas. The Palestinian Authority, Egypt, Jordan, and others – not to mention Israel – are deeply concerned about Iran's activity. The threat would be magnified, and prospects for regional peace and the protection of human rights severely complicated, were Iran to possess nuclear capability.

These frightening effects would follow from Iran simply having the ability to deploy a nuclear weapon. They pale in comparison with the dangers of Iran actually using one. The possibility cannot be discounted – because the consequences would be so dire – that this reckless and apocalyptic regime could allow an international incident to escalate out of control and launch such a weapon, or that it could transfer a nuclear device to a terrorist proxy. A dirty bomb in the center of Chicago, London, or Tel Aviv becomes a very real possibility. If Iran's leaders wished to make good on their oft-

repeated promise to wipe Israel off the map, we could not necessarily rely on deterrence to dissuade them – not in a country whose rulers have demonstrated their willingness to sacrifice millions of their citizens to achieve their vision.

What can be done to stop Iran's nuclear drive? The best answer is to offer the regime incentives for ending its defiance of international law – and to make it unbearably costly for them to continue. The United States has played a crucial leadership role in trying to mobilize the world's economic powers to impose such tough sanctions. The urgency of the threat and the severe consequences of failing to end it compel the United States to intensify its efforts.

1. Our government should make abundantly clear that we will not allow a nuclear Iran – and that the UN Security Council demand that Iran verifiably suspend enrichment is not negotiable.
2. We should offer Iran incentives for ending its nuclear enrichment and meeting its non-proliferation obligations.
3. We should make it unbearably costly for Iran's regime to continue its defiance – even as we make it clear to Iran's people, against whom we hold no brief, that the choice lies with their regime.

The United States has been a leader in mobilizing international support for addressing the Iranian threat. As Iran closes in on nuclear capability, we must continually ratchet up the price of its defiance.

If our Administration pursues engagement with Iran, simultaneously intensifying sanctions is critical. Only tough sanctions would prevent Iran's rulers from seeing our overtures as a sign of weakness and motivate them to be forthcoming in negotiations. Firm goal posts and deadlines also are crucial to prevent Iran's regime from hiding behind negotiations as it completes its quest for nuclear arms.

Congress, as in the past, has a critical role to play in maintaining the necessary focus on this urgent issue, and in providing the Administration – and now, with the legislation before you, providing state and local authorities across the country – the proper tools to address it.

In addition to existing U.S. efforts and repeated UN Security Council sanctions measures, it is imperative that further, targeted U.S. sanctions be implemented – including ones that Congress has passed but that still have not been implemented. Such further sanctions will discourage large new investments and contracts that help maintain Iran's regime. This is where the Iran Sanctions Enabling Act will make a significant contribution.

Iran's strained economy is the regime's Achilles' heel, and provides our most effective leverage – especially now, with oil prices sharply depressed. Oil and gas exports account for some 80 percent of Iran's export revenue and about half the

government's budget. The regime relies on foreign companies to develop its energy industry, and even to provide it with gasoline for domestic use – because it doesn't have refining capacity to meet its own needs. Foreign energy companies essentially sustain Iran's economy and its regime.

Billions of dollars of U.S. public employee pension funds and other public funds are invested in the foreign corporations that most heavily engage in Iran's oil sector – accounting for a significant portion of investment in these companies. A movement is sweeping the United States to curb investment of public funds in these companies. Ten states have enacted laws – including California, with the largest plans in the country, by far – and others have instituted policies divesting from Iran. Members of the armed forces and first responders – who know first-hand the damage that Iran's activity inflicts – are among those who have advocated for divestment most strongly.

Taken together, the divestment mandates already on the books at the state and local level affect more than half a trillion dollars in assets – a sum that is growing as grassroots concern spreads across the country. As Senator Deutch knows – in fact, in large part because of Senator Deutch's efforts – the State of Florida alone already has directed its pension funds to divest nearly \$1.3 billion from these companies, unless the companies change their ways.

Divestment, and the attendant negative publicity, impels companies to reassess their investment in Iran – especially because most of the laws give companies an opportunity to avoid divestment by halting such investments. Many companies already have chosen to do just that. Divestment also discourages companies from beginning new business in Iran.

Thus, divestment discourages the heavy international investment in Iran's oil and gas infrastructure that Iran's regime desperately needs, and thereby significantly adds to the economic pressure on the regime.

Iran is a highly risky investment environment, for numerous reasons. The volatile government and the Iranian Revolutionary Guard own and control much of the economy, especially the energy sector. Corruption is rife, and the business environment opaque. Credit and credit guarantees have become less available, especially with the designation of large Iranian banks for their involvement in proliferation and/or terrorism. Available credit often costs more or comes from less reputable institutions – or both. Iran's deep economic crisis heightens the risk of doing business there. Companies investing heavily in Iran's energy sector also risk U.S., EU, and international sanctions.

For all these reasons, and more, companies that engage heavily in Iran's energy sector are subject to extraordinary risk. Investing in these companies could subject a pension or other fund to undue risk. State and local governments – or investment fund managers – that choose to divest from these companies are acting with prudence and exercising their legitimate authority to protect the assets under their stewardship.

The Iran Sanctions Enabling Act would protect only divestment from companies that invest more than \$20 million in Iran's energy sector. These are the very companies that are subject to U.S. sanctions for their activity in Iran – activity that U.S. companies are forbidden from doing.

The American Jewish Committee strongly supports this legislation, and wishes to express our appreciation for the opportunity to testify before the Subcommittee on this critical matter. Thank you.